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[Forest Service's Accounting System for Accounts Receivable].
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Report to John R. McGuire, Chief, Forest Service; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting (2800); Land Use Planning and Control: Utilization of the Public Lands Resource (2304).

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Organization Concerned: Department of Agriculture.

The Forest Service's Region 6 system of accounting for accounts receivable, including related billing and collection procedures, was reviewed. Findings/Conclusions: Accounting, billing, and collecting for accounts receivable at Region 6 were, for the most part, effective and accorded with the system approved by the Comptroller General in 1970. However, procedures designed to encourage timely payment by contractors were not followed by all Forest offices in Region 6. Only one of four national forests reviewed followed established procedures and kept late payments to a minimum. The large amount of accounts receivable--\$119.7 million in September 1976--illustrates the potential for reducing Government borrowing if bills can be collected more expeditiously. Recommendations: National Forest offices should be advised of the financial impact of delinquent accounts, and should be directed to follow established procedures to insure timely collection. (DJM)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-159687

JUL 11 1977

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Mr. John R. McGuire
Chief, Forest Service
Department of Agriculture

Dear Mr. McGuire:

This report reviews the Forest Service's system of accounting for accounts receivable, including related billing and collection procedures. We made this review at Forest Service Headquarters in Washington, D.C., and at Region 6 in Portland, Oregon; it was part of a multiagency review on which we plan to issue an overall report to the Congress.

Our review showed that the accounting, billing, and collection practices for accounts receivable at Region 6 were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in June 1970. Specifically, we found that receivables were promptly and accurately recorded and billing and collection procedures were effective. However, procedures designed to encourage timely payment by contractors were not followed by all forest offices in Region 6.

The following sections summarize the scope and results of our review and our recommendations to help insure timely collection of accounts receivable.

SCOPE OF REVIEW

We reviewed the accounting for and reporting of accounts receivable at Region 6 of the Forest Service. We also reviewed this region's use of billing and collection procedures to obtain payment for timber sales and miscellaneous fees.

As of September 30, 1976, the Forest Service reported \$119.7 million in accounts receivable from the public, of which \$51.8 million was reported by national forest offices administered by Region 6. Our review was limited to the Region 6 headquarters office, four national forest offices and five ranger district offices. The four forest offices included in this review accounted for \$85.5 million of the

\$241.6 million collected by Region 6 in the year ended June 30, 1976. Although only Region 6 was included in our review, all regions operated under standard Forest Service procedures.

ACCOUNTS RECEIVABLE
ACCURATELY RECORDED

Region 6 was prompt and accurate in recording accounts receivable. Also, the amount reported to the Secretary of the Treasury as of September 30, 1976, was accurate.

We tested the accuracy of recorded receivable balances by examining supporting documentation, reconciling control accounts with subsidiary accounts, and analyzing cutoff dates for recording receivables. Although we did not obtain written confirmation of accounts receivable balances from Forest Service customers, we were able to satisfy ourselves that the receivables were valid by tracing records of timber hauled from the forest to records of subsequent billings. Also, we traced the billings to the payments received. Based on the tests performed, we concluded that accounts receivable were promptly and accurately recorded.

LATE RECEIPT OF PAYMENTS

To determine if payments were received in a timely manner, we compared established procedures to actual collection practices. Three of the four forest offices we reviewed in Region 6 were not following established procedures designed to make timber purchasers pay their bills on time. As a result, 36, 37, and 47 percent of the payments to the three forest offices during a 4-month period were received after the due date.

The "Forest Service Manual" and timber sales contracts provide that, if the contractor does not pay for timber sales within 15 days after billing, the forest office may, after notifying the purchaser's representative, suspend any or all of the purchaser's operations. In the event of consistent late payment, the manual encourages immediate suspension. Of the four national forest offices reviewed, only one, Willamette, followed the established procedures and suspended logging operations. Doing so was apparently effective because the percentage of delinquent payments at this

forest office was much lower than the percentage at the other three, as illustrated by the following schedule.

Schedule of Late Payments to Forest Offices
for August Through November 1976

<u>Forest office</u>	<u>Total billings</u>	<u>Late payments</u>	
		<u>Dollar amount</u>	<u>Percent of total</u>
Willamette	\$37,839,003	\$ 1,005,322	3
Deschutes	7,154,667	2,567,506	36
Gifford-Pinchot	17,086,213	8,097,475	47
Mt. Baker-Snoqualmie	<u>10,118,881</u>	<u>3,709,068</u>	37
Total	<u>\$72,198,764</u>	<u>\$15,379,371</u>	21

Although the overall percentage of late payments compared to total billings is not small, most bills were paid within 5 days of the due date, which was established by contract as being 15 days from the date of the invoice. However, \$847,440 of the late payments was received over 5 days after the due date.

Because of the large amount of accounts receivable--\$119.7 million at September 30, 1976--potential exists for a reduction in the borrowing requirements of the Government if bills can be collected in a more timely manner. In addition, late payments cause additional administrative effort for Forest Service personnel because followup action is required when payment is not received by the due date.

Delinquent payments and a lack of followup action on delinquent accounts were found to be problems during a previous fiscal management program review at one of the four forest offices. During the last 3 years, accounting and collection procedures at the other three forest offices had not been specifically covered by the internal review staff of the Forest Service.

CONCLUSION

One national forest office followed established procedures and kept late payments to a minimum. We believe other forest

offices can encourage timber purchasers to pay their bills on time by following established collection procedures.

RECOMMENDATION

We recommend that you advise national forest offices of the financial impact of delinquent accounts and direct that they follow established procedures to insure timely collection.

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We discussed the results of our review with responsible personnel at Forest Service Headquarters and Region 6. They plan to make clear to all national forest offices the financial impact of late collections and the need to use available procedures, including suspension of the purchaser's timber operation, to insure timely collection.

We would be pleased to discuss our review results with you or your representatives and would appreciate receiving your comments on the actions taken on our recommendation within 30 days. We are sending copies of this report to the Department's Director of the Office of Audit.

We wish to thank you for the courtesy and cooperation extended to our representatives..

Sincerely yours,


D. L. Scantlebury
Director